

Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended .

Unit Name	VILLAGE OF CALUMET	County	HOUGHTON	Type	VILLAGE	MuniCode	31-3-010
Opinion Date-Use Calendar	07/03/2008	Audit Submitted-Use Calendar	07/23/2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <u>Qualified</u>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 519,486.00
General Fund Expenditure:	\$ 464,828.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 141,349.00
Governmental Activities Long-Term Debt (see instructions):	\$ 170,218.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	JACKIE	Last Name	AALTO	Ten Digit License Number			1101022394
CPA Street Address	200 FIFTH ST., STE 104	City	CALUMET	State	MI	Zip Code	49913
CPA Firm Name	JACKIE A. AALTO, CPA	Unit's Street Address	340 SIXTH ST	City	CALUMET	LU Zip	49913

VILLAGE OF CALUMET, MICHIGAN
Houghton County

FINANCIAL REPORT

Year Ended February 29, 2008

VILLAGE OF CALUMET, MICHIGAN
FINANCIAL REPORT
Year Ended February 29, 2008

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INDEPENDENT AUDITOR'S REPORT

The Village Council
Village of Calumet, Michigan

I have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Calumet, Michigan as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Calumet, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

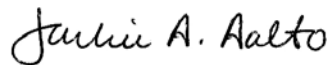
Management has not included the Volunteer Firemen's Fund in the Village's financial statements. Accounting principles generally accepted in the United States of America require the Volunteer Firemen's Fund to be presented as a special revenue fund and financial information about the Volunteer Firemen's Fund to be part of the governmental activities, thus increasing that activity's assets, liabilities, revenues, and expenses, and changing its net assets. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the governmental activities is not reasonably determinable.

In my opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Calumet, Michigan, as of February 29, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued by report dated July 3, 2008, on my consideration of the Village of Calumet, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 31 through 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Calumet, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Jackie A. Aalto, CPA

July 3, 2008

VILLAGE OF CALUMET, MICHIGAN

Management's Discussion and Analysis

As management of the Village of Calumet, Michigan ("the Village") we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 29, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of this fiscal year by \$1,693,758 (net assets). Governmental activities represented this entire total.
- The Village's total net assets increased by \$229,626. This increase was primarily due to \$306,663 in grants received.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$129,784, or 28% of total General Fund expenditures.
- The Village's total debt increased by a net amount of \$20,034 during the current fiscal year. This increase was the result of the purchase of a fire truck.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or most of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, public safety,

highways and streets, sanitation, economic development and culture and recreation. The Village has no business-type activities.

The government-wide financial statements include not only the Village itself (known as the *primary government*), but also a legally separate Downtown Development Authority for which the Village is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains eleven individual governmental funds. Information is presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Street, Local Street, Sanitation, and Grant Funds, all of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for all of its funds except for the Grant Fund, which adopts a project-length budget. A budgetary comparison statement has been provided for the General Fund and each major special revenue fund to demonstrate compliance with the budgets.

The basic governmental fund financial statements can be found on pages 13 - 16 of this report.

Proprietary funds. There are two types of proprietary funds. Enterprise funds are used to account for business-like activities provided to the general public and internal service funds which are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village has no proprietary funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Village has no fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 - 29 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* that explains and supports the information presented in the financial statements. This information can be found on pages 31 - 34 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining fund statements can be found on pages 36 and 37 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceed liabilities by \$1,693,758 at the close of the most recent fiscal year.

By far the largest portion of the Village's net assets (88%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Comparative information is shown for 2/28/06 as the Village did not prepare government-wide financial statements for 2/28/07.

Village of Calumet, Michigan's Net Assets (in thousands of dollars)

	Governmental Activities	
	<u>2/29/08</u>	<u>2/28/06</u>
Current and other assets	\$ 284.4	\$ 385.5
Capital assets	<u>1,658.7</u>	<u>996.3</u>
Total Assets	<u>1,943.1</u>	<u>1,381.8</u>
Long-term liabilities outstanding	191.0	157.5
Other liabilities	<u>58.3</u>	<u>92.7</u>
Total Liabilities	<u>249.3</u>	<u>250.2</u>
Net Assets:		
Invested in capital assets, net of related debt	1,488.5	858.4
Restricted	26.4	43.8
Unrestricted	<u>178.9</u>	<u>229.4</u>
Total Net Assets	<u>\$ 1,693.8</u>	<u>\$ 1,131.6</u>

An additional portion of the Village's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$178,942) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in all three categories of net assets.

The Village's net assets did increase by \$229,626 during the current fiscal year. This increase was due to \$306,663 in grants received. Key elements of this increase are as follows:

Village of Calumet, Michigan's Changes in Net Assets
(in thousands of dollars)

	<u>Governmental Activities</u>	
	<u>2/29/08</u>	<u>2/28/06</u>
Revenues:		
Program revenues:		
Charges for services	\$ 104.2	\$ 229.8
Operating grants & contributions	136.1	164.4
Capital grants & contributions	306.7	610.9
General revenues:		
Property taxes	156.3	148.9
State-shared revenues	123.5	127.7
Other	6.4	38.1
Transfers with component unit	<u>21.5</u>	<u>13.1</u>
Total Revenues	<u>854.7</u>	<u>1,332.9</u>
Expenses:		
General government	170.3	142.9
Public safety	132.1	161.8
Public works	182.5	175.4
Highways & streets	81.1	196.0
Recreations & culture	10.9	13.4
Sanitation	39.1	47.3
Interest on long-term debt	<u>9.0</u>	<u>7.8</u>
Total Expenses	<u>625.0</u>	<u>744.6</u>
Increase (decrease) in net assets	229.7	588.3
Net Assets – Beginning	<u>1,464.1</u>	<u>543.3</u>
Net Assets – Ending	<u><u>\$ 1,693.8</u></u>	<u><u>\$ 1,131.6</u></u>

The most significant portion of the revenues for all governmental activities for the current fiscal year of the Village comes from Capital Grants & Contributions. This is the result of grants received for street and building improvements, as well as for a fire truck.

Charges for Services are typically a significant portion of revenues. The largest portion of this revenue comes from sanitation fees charged to Village residents.

Operating Grants and Contributions are a major source of revenue. This figure includes Michigan Transportation Fund (Act 51) money for the Major and Local Street Funds.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the state sales tax. During the year, the amount of state shared revenue received by the Village trended downward, representing declining sales tax collections and discretionary cuts by the State in revenue sharing payments.

Property taxes are a major source of the revenue. The Village's operating millage was 20.7703, which includes 2.9259 mills for additional operating purposes. The Village's charter allows the Village to levy up to 12.5 mills for general operations, 5.0 mills for streets, and 3.0 mills for garbage. Due to State of Michigan statutes, the Village is at its maximum millage tax levy, and is unable to increase the millage without the approval of the voters.

The most significant portion of the expenses for all governmental activities of the Village is for Public Works and Highways & Streets. This is due to heavy snow removal activities. Public Works includes maintenance support activities for the snow removal operations. Public Safety expenses include police and fire department operations and the General Government expenses represent village hall activities.

Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$193,262. Approximately 80% of this total amount (\$155,472) constitutes unreserved, undesignated fund balance, which is available for spending at the Village's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to pay debt service and for a variety of other purposes.

The General Fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$129,784, while total fund balance was \$141,349. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 28% of total General Fund expenditures, while total fund balance represents 30% of that same amount.

The fund balance of the Village's General Fund did increase by \$2,251 during the current fiscal year.

General Fund Budgetary Highlights

During the year there was a \$42,996 increase in appropriations between the original and final amended budget. The increase was due primarily to increases in transfers to other funds.

Capital Asset and Debt Administration

Capital Assets. The Village's investment in capital assets for its governmental activities as of February 29, 2008, amounts to \$1,658,730 (net of accumulated depreciation). This investment in capital assets includes land, historical treasures, buildings, improvements, machinery and equipment, park facilities, and infrastructure.

Major capital asset events during the current fiscal year included the purchase of a fire truck for \$229,540.

Village of Calumet, Michigan's Capital Assets

(net of depreciation)

(in thousands of dollars)

	Governmental Activities	
	2/29/08	2/28/07
Land	\$ 76.4	\$ 76.4
Historical treasure	48.0	48.0
Construction in progress	1.2	
Buildings & site improvements	58.1	60.0
Machinery & equipment	301.2	85.1
Vehicles	19.8	17.6
Water lines	108.9	113.2
Infrastructure	<u>1,045.1</u>	<u>956.8</u>
Total Assets	<u>\$ 1,658.7</u>	<u>\$ 1,357.1</u>

Additional information on the Village's capital assets can be found in note III-B on page 24 of this report.

Long-term debt. At the end of the current fiscal year, the Village had total debt of \$170,218. This total amount is backed by the full faith and credit of the government and equipment. The Village's total debt did increase by \$20,034 during the current fiscal year, because of the purchase of a fire truck.

Additional information on the Village's long-term debt can be found in note III-D on page 27 of this report.

Request for Information

This financial report is intended to provide a general overview of the Village's finances for all those with an interest in the Village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village of Calumet, PO Box 46, Calumet, Michigan 49913.

VILLAGE OF CALUMET, MICHIGAN

Statement of Net Assets

February 29, 2008

	Primary Government			Component Unit
	Governmental	Business-type		
	Activities	Activities	Total	DDA
Assets				
Cash	\$ 141,695	\$	\$ 141,695	\$ 107,951
Receivables, net	131,242		131,242	826
Due from primary government				11
Inventories	4,559		4,559	
Prepaid items	6,927		6,927	
Capital assets not being depreciated	125,578		125,578	26,727
Capital assets net of accumulated depreciation	<u>1,533,152</u>		<u>1,533,152</u>	
Total Assets	<u>1,943,153</u>		<u>1,943,153</u>	<u>135,515</u>
Liabilities				
Accounts payable & other current liabilities	36,597		36,597	
Accrued interest payable	2,625		2,625	
Due to component unit	11		11	
Unearned revenue	19,137		19,137	
Noncurrent liabilities:				
Due within one year	24,499		24,499	
Due in more than one year	<u>166,526</u>		<u>166,526</u>	
Total Liabilities	<u>249,395</u>		<u>249,395</u>	
Net Assets				
Invested in capital assets, net of related debt	1,488,512		1,488,512	26,727
Restricted for:				
Historic preservation	4,638		4,638	
Highways & streets	21,525		21,525	
Debt service	141		141	
Unrestricted	<u>178,942</u>		<u>178,942</u>	<u>108,788</u>
Total Net Assets	<u>\$1,693,758</u>	<u>\$</u>	<u>\$1,693,758</u>	<u>\$ 135,515</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF CALUMET, MICHIGAN

Statement of Activities

Year Ended February 29, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit	
					Governmental Activities	Business-type Activities	Total	DDA
Primary Government:								
Governmental Activities								
General government	\$ 170,371	\$ 7,105	\$ 2,300	\$ 54,712	\$ (106,254)	\$	\$ (106,254)	\$
Public safety	132,090	4,148	4,129	190,950	67,137		67,137	
Public works	182,470	62,293			(120,177)		(120,177)	
Highways & streets	81,052		129,658	61,001	109,607		109,607	
Recreation & culture	10,877	195			(10,682)		(10,682)	
Sanitation	39,141	30,479			(8,662)		(8,662)	
Interest on long-term debt	9,048				(9,048)		(9,048)	
Total Governmental Activities	625,049	104,220	136,087	306,663	(78,079)		(78,079)	
Business-type Activities								
Total Primary Government	\$ 625,049	\$ 104,220	\$ 136,087	\$ 306,663	(78,079)		(78,079)	
Component Unit:								
DDA District	\$ 7,819	\$	\$	\$				(7,819)
General Revenues:								
Property taxes					156,253		156,253	60,554
State-shared revenues					123,509		123,509	
Unrestricted investment earnings					1,446		1,446	692
Franchise fees					4,937		4,937	
Gain on sale of capital assets					60		60	271
Transfers with component units					21,500		21,500	(21,500)
Total General Revenues and Transfers					307,705		307,705	40,017
Change in Net Assets					229,626		229,626	32,198
Net Assets – Beginning					1,464,132		1,464,132	103,317
Net Assets – Ending					\$ 1,693,758	\$	\$ 1,693,758	\$ 135,515

The notes to the financial statements are an integral part of this statement.

VILLAGE OF CALUMET, MICHIGAN

**Balance Sheet
Governmental Funds**

February 29, 2008

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Sanitation</u>	<u>Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets							
Cash	\$ 22,045	\$ 39,386	\$ 32,094	\$ 10,292	\$ 19,404	\$ 18,474	\$ 141,695
Receivables (net):							
Taxes	16,443			3,145		5,074	24,662
Accounts	18,823			12,092		156	31,071
Due from other funds	93,535		10,000	1,324		1,812	106,671
Intergovernmental receivable:							
State	22,112	40,550	12,847				75,509
Prepaid items	6,927						6,927
Inventories						4,559	4,559
Total Assets	<u>\$ 179,885</u>	<u>\$ 79,936</u>	<u>\$ 54,941</u>	<u>\$ 26,853</u>	<u>\$ 19,404</u>	<u>\$ 30,075</u>	<u>\$ 391,094</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 11,817	\$ 10,043	\$ 2,802	\$ 2,637	\$	\$	\$ 27,299
Accrued liabilities	7,554	1,387	357				9,298
Due to other funds	3,147	57,229	45,836	253	217		106,682
Deferred revenues:							
Taxes	16,018			3,066		4,944	24,028
Other				11,388	19,137		30,525
Total Liabilities	<u>38,536</u>	<u>68,659</u>	<u>48,995</u>	<u>17,344</u>	<u>19,354</u>	<u>4,944</u>	<u>197,832</u>
Fund Balances							
Reserved for:							
Prepaid items	6,927						6,927
Historic preservation	4,638						4,638
Highways & streets		11,277	5,946			4,302	21,525
Inventories						4,559	4,559
Debt service						141	141
Unreserved, undesignated reported in:							
General fund	129,784						129,784
Special revenue funds				9,509	50	16,129	25,688
Total Fund Balances	<u>141,349</u>	<u>11,277</u>	<u>5,946</u>	<u>9,509</u>	<u>50</u>	<u>25,131</u>	<u>193,262</u>
Total Liabilities and Fund Balances	<u>\$ 179,885</u>	<u>\$ 79,936</u>	<u>\$ 54,941</u>	<u>\$ 26,853</u>	<u>\$ 19,404</u>	<u>\$ 30,075</u>	

VILLAGE OF CALUMET, MICHIGAN

Balance Sheet (Continued) Governmental Funds

February 29, 2008

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Sanitation</u>	<u>Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Amounts reported for governmental activities in the statement of net assets are different because:							
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.							1,658,730
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.							35,416
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.							
Bonds and loan payable				(170,218)			
Accrued interest on bonds				(2,625)			
Compensated absences				<u>(20,807)</u>			<u>(193,650)</u>
Net assets of governmental activities							<u>\$ 1,693,758</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF CALUMET, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

Year Ended February 29, 2008

	General	Major Street	Local Street	Sanitation	Grant	Nonmajor Governmental Funds	Total
Revenues							
Taxes	\$ 88,783	\$	\$	\$ 16,023	\$	\$ 36,619	\$ 141,425
Licenses & permits	7,460						7,460
Intergovernmental							
Federal					305,500		305,500
State	146,148	105,120	24,538		1,163		276,969
Charges for services	52,485			31,488		195	84,168
Fines & forfeits	5,651						5,651
Interest & rents	178,500	409	305	152		332	179,698
Other revenues	40,459					7,395	47,854
Total Revenues	<u>519,486</u>	<u>105,529</u>	<u>24,843</u>	<u>47,663</u>	<u>306,663</u>	<u>44,541</u>	<u>1,048,725</u>
Expenditures							
Current							
General government	91,627	350	315	350		5,104	97,746
Public safety	94,946						94,946
Public works	114,626						114,626
Highways & streets		171,782	73,776			7,749	253,307
Sanitation				45,895			45,895
Recreation & culture	8,974						8,974
Other	154,655						154,655
Debt service							
Principal						18,556	18,556
Interest						9,173	9,173
Capital outlay					347,601	7,500	355,101
Total Expenditures	<u>464,828</u>	<u>172,132</u>	<u>74,091</u>	<u>46,245</u>	<u>347,601</u>	<u>48,082</u>	<u>1,152,979</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>54,658</u>	<u>(66,603)</u>	<u>(49,248)</u>	<u>1,418</u>	<u>(40,938)</u>	<u>(3,541)</u>	<u>(104,254)</u>
Other Financing Sources (Uses)							
Transfers in		55,200	45,000		2,348	42,696	145,244
Transfers out	(52,467)	(11,788)				(59,489)	(123,744)
Loan proceeds					38,590		38,590
Sale of capital asset	60						60
Total Other Financing Sources (Uses)	<u>(52,407)</u>	<u>43,412</u>	<u>45,000</u>		<u>40,938</u>	<u>(16,793)</u>	<u>60,150</u>
Net Change in Fund Balances	2,251	(23,191)	(4,248)	1,418		(20,334)	(44,104)
Fund Balances – Beginning	<u>139,098</u>	<u>34,468</u>	<u>10,194</u>	<u>8,091</u>	<u>50</u>	<u>45,465</u>	
Fund Balances – Ending	<u>\$ 141,349</u>	<u>\$ 11,277</u>	<u>\$ 5,946</u>	<u>\$ 9,509</u>	<u>\$ 50</u>	<u>\$ 25,131</u>	

VILLAGE OF CALUMET, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances (Continued) Governmental Funds

Year Ended February 29, 2008

<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Sanitation</u>	<u>Capital Projects Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Amounts reported for governmental activities in the statement of activities are different because:						
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.						301,582
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount by which deferred revenues decreased during the current year.						(4,691)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.						(20,034)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.						(3,252)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which interest payable decreased during the current year.						<u>125</u>
Change in Net Assets of Governmental Activities						<u>\$ 229,626</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Village of Calumet, Michigan was incorporated in 1875. The Village is governed by an elected seven member council consisting of a president and six trustees. The Village provides services to its residents in many areas including law enforcement, fire protection, street maintenance, sanitation, recreation and community enrichment. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. This discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely Presented Component Unit - GASB Statement No. 14, *The Financial Reporting Entity*, as amended, contains the standards for defining the governmental financial reporting entity and for identifying which legally separate entities are component units that should be included with another government (usually a primary government) in a financial reporting entity's financial statements. Requirements for including component units are based primarily on the concept of financial accountability. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Village has one component unit.

The component unit column in the government-wide financial statements includes the financial data of the Downtown Development Authority ("DDA") established in 1992 by the Village under provisions of Act 197, P.A. of 1975 as amended (MCL 125.1651). It is governed by a nine member board appointed by the Village's governing board. The DDA adopted a development and tax increment financing plan in 1992 to provide tax increment revenues to pay for improvements within the DDA district. The DDA is presented as a governmental fund type. Complete financial statements of the component unit may be obtained from the Village's office.

Other – An association which meets certain criteria for including its financial activity in the Village's basic financial statements is the Volunteer Firemen's Fund. Since the Volunteer Firemen's Fund is not a separate legal entity, and money raised thereof is done in the name of the Village, the financial activity of the fund should be a part of the Village reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Financial statements are provided for the governmental funds. The Village has no proprietary or fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

The Village reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The *Local Street Fund* accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The *Sanitation Fund* accounts for the activities of the Village's garbage removal operations.

The *Grant Fund* accounts for the development, improvement and rehabilitation of Village infrastructure.

Additionally, the Village reports the following nonmajor governmental funds: Revolving Loan, Municipal Street, Public Improvement, Replacement and Maintenance, Water, Historic District Commission and Debt Service.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's sanitation function and various other functions of the Village. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The Village did not have any short-term investments at February 29, 2008.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

When applicable, advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes are levied on July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent after the third Monday in October, at which time penalties and interest are assessed.

The 2007 taxable valuation of the Village totaled \$8,054,750, on which ad valorem taxes levied consisted of 10.8811 mills for operating purposes, 2.9259 mills for additional operating purposes, 4.3521 mills for street maintenance, and 2.6112 mills for garbage removal. This resulted in \$111,191 for operating, \$35,047 for street maintenance, and \$21,027 for garbage removal. These amounts are recognized in the respective General and Special Revenue Fund financial statements as taxes receivable – current or as tax revenue. The Village also levied 1.2548 mills on property owners within the Downtown Development Authority district. This resulted in \$5,152. The DDA financial activity is recorded in the DDA Fund and is presented in the financial statements as a discretely presented component unit.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. As the Village constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical costs. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the Village values these capital assets at the estimated fair value of the item at the date of its donation.

Prior to March 1, 2004, governmental funds' infrastructure assets were not capitalized. Infrastructure assets acquired since March 1, 2004 will be recorded at cost.

Property, plant and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40 to 60 years
Site Improvements	10 to 15 years
Water Lines	35 to 80 years
Infrastructure	15 to 30 years
Vehicles	5 to 25 years
Office Equipment & Furnishings	10 to 15 years

5. *Compensated Absences (Vacation and Sick Leave)*

It is the Village's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

6. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. When applicable, bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except for the Grant Fund, which adopts a project-length budget. All annual appropriations lapse at fiscal year end.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level of which expenditures may not legally exceed appropriations) is the activity level. Encumbrance accounting is not employed in the governmental funds.

B. Excess of Expenditures over Appropriations

For the year ended February 29, 2008, expenditures exceeded appropriations in the Municipal Street Fund by \$426. The over expenditures were funded by available fund balance.

C. Budget Violations

For the year ended February 29, 2008, the Village did not adopt a budget for its Water Fund. Total expenditures in this fund were \$40.

III. Detailed Notes on All Funds

A. Deposits

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village has designated four banks for the deposit of Village funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Village's deposits and investment policy are in accordance with statutory authority.

At year-end, the Village's deposits were reported in the basic financial statements in the following categories (the Village has no investments):

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

	<u>Governmental Activities</u>	<u>Primary Government</u>	<u>Component Unit</u>
Cash	<u>\$ 141,695</u>	<u>\$ 141,695</u>	<u>\$ 107,951</u>

The breakdown between deposits is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Bank deposits (checking and savings accounts)	\$ 141,595	\$ 107,951
Petty cash and cash on hand	<u>100</u>	<u> </u>
Total	<u>\$ 141,695</u>	<u>\$ 107,951</u>

The bank balance of the primary government's deposits is \$139,153, of which \$125,248 is covered by federal depository insurance and \$13,905 is uninsured. The bank balance of the component unit's deposits is \$107,951, of which \$100,002 is covered by federal depository insurance and \$7,949 is uninsured.

B. Capital Assets

Capital asset activity for the year ended February 29, 2008 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 76,415	\$	\$	\$ 76,415
Historical treasure	48,000			48,000
Construction in progress	<u> </u>	<u>1,163</u>	<u> </u>	<u>1,163</u>
Total capital assets, not being depreciated	<u>124,415</u>	<u>1,163</u>	<u> </u>	<u>125,578</u>
Capital assets, being depreciated:				
Buildings & site improvements	164,453			164,453
Machinery & equipment	487,767	229,540		717,307
Vehicles	59,750	7,500	(13,900)	53,350
Water lines	213,513			213,513
Infrastructure	<u>989,523</u>	<u>116,898</u>	<u> </u>	<u>1,106,421</u>
Total capital assets being depreciated	<u>1,915,006</u>	<u>353,938</u>	<u>(13,900)</u>	<u>2,255,044</u>

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Accumulated depreciation:				
Building & site improvements	(104,489)	(1,821)		(106,310)
Machinery & equipment	(402,663)	(13,403)		(416,066)
Vehicles	(42,145)	(5,280)	13,900	(33,525)
Water lines	(100,316)	(4,270)		(104,586)
Infrastructure	<u>(32,660)</u>	<u>(28,745)</u>		<u>(61,405)</u>
Total accumulated depreciation	<u>(682,273)</u>	<u>(53,519)</u>	<u>13,900</u>	<u>(721,892)</u>
Total capital assets being depreciated, net	<u>1,232,733</u>	<u>300,419</u>		<u>1,533,152</u>
Governmental activities capital assets, net	<u>\$1,357,148</u>	<u>\$ 301,582</u>	<u>\$</u>	<u>\$1,658,730</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 393
Public safety	10,437
Public works	12,340
Highways & streets, including depreciation of general infrastructure assets	28,745
Recreation & culture	<u>1,604</u>

Total depreciation expense – governmental activities \$ 53,519

Construction Commitment

The Village has one active construction project as of February 29, 2008. The project is for improvements to the historic building, the Calumet Theatre. At year end the Village's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Building improvements	<u>\$ 1,163</u>	<u>\$ 65,837</u>

This project is being financed by a \$22,500 Michigan Council for Arts and Cultural Affairs grant and a \$20,000 Department of the Interior National Park Service grant. The balance of the funds will be from the Village and private contributions.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

Discretely Presented Component Unit

Activity for the Downtown Development Authority for the year ended February 29, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land/building	<u>\$ 27,987</u>	<u>\$ _____</u>	<u>\$ (1,260)</u>	<u>\$ 26,727</u>

C. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of February 29, 2008 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Major Street	\$ 47,229
	Local Street	45,836
	Sanitation	253
	Grant	217
Local Street	Major Street	10,000
Sanitation	General	1,324
Municipal	General	<u>1,812</u>
Total Primary Government		106,671
Component Unit – DDA	General	<u>11</u>
Total		<u>\$ 106,682</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

Interfund Transfers:

	Transfer In:				
	Major Street	Local Street	Grant	Nonmajor Governmental	Total
Transfer Out:					
General	\$ 20,000	\$ 19,000	\$	\$ 13,467	\$ 52,467
Major Street		10,000		1,788	11,788
Nonmajor Governmental Funds	<u>30,200</u>	<u>16,000</u>	<u>2,348</u>	<u>10,941</u>	<u>59,489</u>
Total Primary Government	50,200	45,000	2,348	26,196	123,744
Component Unit – DDA	<u>5,000</u>			<u>16,500</u>	<u>21,500</u>
Total	<u>\$ 55,200</u>	<u>\$ 45,000</u>	<u>\$ 2,348</u>	<u>\$ 42,696</u>	<u>\$145,244</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

D. Long-Term Debt

The Village issues general obligation bonds to provide funds for the acquisition and construction of infrastructure or major equipment purchases.

General obligation bonds and loans are direct obligations and pledge the full faith and credit of the Village. Contractual agreements and installment purchase agreements are also general obligations of the Village.

Bond and contractual activity for the year ended February 29, 2008 was as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental Activities							
General Obligations Bonds							
\$160,000 1997 Michigan							
Transportation Fund Bonds	6.00%	10-1-2016	\$ 110,000	\$	\$ (5,000)	\$ 105,000	\$ 10,000
Loan – Police vehicle	4.95%	9-17-2010	18,212		(4,890)	13,322	4,636
Loan – Sander	5.20%	11-6-2011	21,972		(4,191)	17,781	4,882
Loan – fire truck	5.15%	12-1-2014		<u>38,590</u>	<u>(4,475)</u>	<u>34,115</u>	<u>4,981</u>
Subtotal bond & loan obligations			150,184	38,590	(18,556)	170,218	24,499
Other Long-term Obligations							
Compensated absences			<u>17,555</u>	<u>3,252</u>		<u>20,807</u>	
Total Governmental Activities			<u>\$ 167,739</u>	<u>\$ 41,842</u>	<u>\$ (18,556)</u>	<u>\$ 191,025</u>	<u>\$ 24,499</u>

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End February 28,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 24,499	\$ 9,305
2010	25,257	7,948
2011	24,751	6,556
2012	18,152	5,341
2013	16,118	4,404
2014-2016	<u>61,441</u>	<u>8,881</u>
Total	<u>\$ 170,218</u>	<u>\$ 42,435</u>

During the current fiscal year the Village paid \$9,173 in interest expense. The entire amount was expensed.

E. Lease Agreement

The water line lease and operating agreement between the Village of Calumet, Michigan and Michigan-American Water Company is dated October 1, 1983. Annual rental is based on 10% of the revenue generated by Michigan-American Water Company from Village residents. This rental income is recorded in the General Fund and amounts to \$11,434 for the year ended February 29, 2008.

IV. Other Information

A. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and employee injuries (workers' compensation), as well as medical benefits provided to employees. All risk of loss is covered by commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

B. Related Organization

The Calumet Housing Commission ("the Commission") is a related organization which is excluded from the financial reporting entity because the Village's accountability does not extend beyond making appointments. The Commission provides low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development. The Village has no influence over the management, budget or policies of the Commission. The Commission reports independently and a copy of its audited financial statement is available from them.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 29, 2008

C. Jointly Governed Organization

The Village, in conjunction with three other governmental entities, created the North Houghton County Water & Sewage Authority (“the Authority”) to provide wastewater collection, transmission and treatment. The Authority’s board is comprised of seven members, one of which is from the Village. The Authority’s board has control over its own budgeting and financing obligations. All of the financial operations of the Authority are recorded in the records of the Authority. It is expected that the revenues generated from the Authority system users will be adequate to operate the sewage system and pay back the related construction debt and interest of the Authority. Separately issued financial statements are available from the Authority.

D. Employee Retirement and Benefit Systems

The Village funds a simplified employee pension plan for its unionized employees, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual’s account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant’s account and the returns earned on investments of those contributions.

As established by the Village, only unionized employees are eligible to participate. The Village contributes to the individual retirement accounts, of those eligible, a percentage of their gross compensation ranging from 1% after 1 year of service up to 10% after 10 years and 4% after 4 years of service up to 10% after 10 years for the police and public works departments, respectively. Contributions vest 100% immediately. Pension costs amounted to \$7,822 for the year ended February 29, 2008.

E. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Required Supplementary Information

VILLAGE OF CALUMET, MICHIGAN

Budgetary Comparison Schedule General Fund Year Ended February 29, 2008

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 139,098	\$ 139,098	\$ 139,098
Resources (Inflows):			
Taxes	103,200	87,244	88,783
Licenses & permits	3,205	7,375	7,460
Intergovernmental – State	132,000	139,856	146,148
Charges for services	39,100	56,801	52,485
Fines & forfeits	14,900	5,430	5,651
Interest & rents	140,163	180,120	178,500
Other revenues	34,562	43,912	40,459
Sale of capital asset	<u> </u>	<u>60</u>	<u>60</u>
Amounts Available for Appropriation	<u>606,228</u>	<u>659,896</u>	<u>658,644</u>
Charges to Appropriations (Outflows):			
General government	94,400	95,388	91,627
Public safety	95,000	96,544	94,946
Public works	110,450	117,600	114,626
Recreation & culture	5,300	9,761	8,974
Other	160,165	162,018	154,655
Transfers out	<u>25,700</u>	<u>52,700</u>	<u>52,467</u>
Total Charges to Appropriations	<u>491,015</u>	<u>534,011</u>	<u>517,295</u>
Ending Budgetary Fund Balance	<u>\$ 115,213</u>	<u>\$ 125,885</u>	<u>\$ 141,349</u>

VILLAGE OF CALUMET, MICHIGAN

**Budgetary Comparison Schedule
Major Street Fund
Year Ended February 29, 2008**

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 34,468	\$ 34,468	\$ 34,468
Resources (Inflows):			
Intergovernmental – State	116,450	100,335	105,120
Interest	500	403	409
Transfers in	<u>25,000</u>	<u>55,200</u>	<u>55,200</u>
Amounts Available for Appropriation	<u>176,418</u>	<u>190,406</u>	<u>195,197</u>
Charges to Appropriations (Outflows):			
General government	900	400	350
Highways & streets	141,400	177,718	171,782
Transfers out	<u>1,400</u>	<u>11,788</u>	<u>11,788</u>
Total Charges to Appropriations	<u>143,700</u>	<u>189,906</u>	<u>183,920</u>
Ending Budgetary Fund Balance	<u>\$ 32,718</u>	<u>\$ 500</u>	<u>\$ 11,277</u>

VILLAGE OF CALUMET, MICHIGAN

**Budgetary Comparison Schedule
Local Street Fund
Year Ended February 29, 2008**

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 10,194	\$ 10,194	\$ 10,194
Resources (Inflows):			
Intergovernmental – State	30,090	24,018	24,538
Interest	350	300	305
Transfers in	<u>20,000</u>	<u>45,000</u>	<u>45,000</u>
Amounts Available for Appropriation	<u>60,634</u>	<u>79,512</u>	<u>80,037</u>
Charges to Appropriations (Outflows):			
General government	600	350	315
Highways & streets	<u>50,475</u>	<u>78,200</u>	<u>73,776</u>
Total Charges to Appropriations	<u>51,075</u>	<u>78,550</u>	<u>74,091</u>
Ending Budgetary Bund Balance	<u>\$ 9,559</u>	<u>\$ 962</u>	<u>\$ 5,946</u>

VILLAGE OF CALUMET, MICHIGAN

**Budgetary Comparison Schedule
Sanitation Fund
Year Ended February 29, 2008**

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 8,091	\$ 8,091	\$ 8,091
Resources (Inflows):			
Taxes	16,290	16,272	16,023
Charges for services	30,500	30,000	31,488
Interest	<u>200</u>	<u>149</u>	<u>152</u>
Amounts Available for Appropriation	<u>55,081</u>	<u>54,512</u>	<u>55,754</u>
Charges to Appropriations (Outflows):			
General government	1,700	500	350
Sanitation	<u>45,810</u>	<u>45,873</u>	<u>45,895</u>
Total Charges to Appropriations	<u>47,510</u>	<u>46,373</u>	<u>46,245</u>
Ending Budgetary Fund Balance	<u>\$ 7,571</u>	<u>\$ 8,139</u>	<u>\$ 9,509</u>

Other Supplementary Information

VILLAGE OF CALUMET, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds February 29, 2008

	Special Revenue Funds					Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
	Revolving Loan	Municipal Street	Public Improvement Replace & Maint	Water	Historic District Commission			
Assets								
Cash	\$ 7,118	\$ 2,204	\$ 2,013	\$ 2,117	\$ 4,881	\$ 18,333	\$ 141	\$ 18,474
Receivables (net):								
Taxes		5,074				5,074		5,074
Accounts		156				156		156
Due from other funds		1,812				1,812		1,812
Inventories		4,559				4,559		4,559
Total Assets	<u>\$ 7,118</u>	<u>\$ 13,805</u>	<u>\$ 2,013</u>	<u>\$ 2,117</u>	<u>\$ 4,881</u>	<u>\$ 29,934</u>	<u>\$ 141</u>	<u>\$ 30,075</u>
Liabilities and Fund Balances								
Liabilities								
Deferred revenues – taxes	\$	\$ 4,944	\$	\$	\$	\$ 4,944	\$	\$ 4,944
Fund Balances								
Reserved for:								
Inventories		4,559				4,559		4,559
Highways & streets		4,302				4,302		4,302
Debt service							141	141
Unreserved	<u>7,118</u>		<u>2,013</u>	<u>2,117</u>	<u>4,881</u>	<u>16,129</u>		<u>16,129</u>
Total Fund Balances	<u>7,118</u>	<u>8,861</u>	<u>2,013</u>	<u>2,117</u>	<u>4,881</u>	<u>24,990</u>	<u>141</u>	<u>25,131</u>
Total Liabilities and Fund Balances	<u>\$ 7,118</u>	<u>\$ 13,805</u>	<u>\$ 2,013</u>	<u>\$ 2,117</u>	<u>\$ 4,881</u>	<u>\$ 29,934</u>	<u>\$ 141</u>	<u>\$ 30,075</u>

VILLAGE OF CALUMET, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds Year Ended February 29, 2008

	Special Revenue Funds					Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
	Revolving Loan	Municipal Street	Public Improvement Replace & Maint	Water	Historic District Commission			
Revenues								
Taxes	\$	\$ 36,619	\$	\$	\$	\$ 36,619	\$	\$ 36,619
Charges for services					195	195		195
Interest	53	157	55	22	44	331	1	332
Other revenues		7,395				7,395		7,395
Total Revenues	53	44,171	55	22	239	44,540	1	44,541
Expenditures								
Current								
General government		200	210	40	4,549	4,999	105	5,104
Highways & streets		7,749				7,749		7,749
Debt service								
Principal							18,556	18,556
Interest							9,173	9,173
Capital outlay			7,500			7,500		7,500
Total Expenditures		7,949	7,710	40	4,549	20,248	27,834	48,082
Excess (Deficiency) of Revenues Over (Under) Expenditures	53	36,222	(7,655)	(18)	(4,310)	24,292	(27,833)	(3,541)
Other Financing Sources (Uses)								
Transfers in			11,772		3,000	14,772	27,924	42,696
Transfers out		(46,200)	(13,289)			(59,489)		(59,489)
Total Other Financing Sources (Uses)		(46,200)	(1,517)		3,000	(44,717)	27,924	(16,793)
Net Change in Fund Balances	53	(9,978)	(9,172)	(18)	(1,310)	(20,425)	91	(20,334)
Fund Balances – Beginning	7,065	18,839	11,185	2,135	6,191	45,415	50	45,465
Fund Balances – Ending	\$ 7,118	\$ 8,861	\$ 2,013	\$ 2,117	\$ 4,881	\$ 24,990	\$ 141	\$ 25,131

Federal Programs

VILLAGE OF CALUMET, MICHIGAN

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Village Council
Village of Calumet, Michigan

I have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Calumet, Michigan, as of and for the year ended February 29, 2008 which collectively comprise the Village of Calumet, Michigan's basic financial statements, and have issued my report thereon dated July 3, 2008. The report on the basic financial statements was qualified because the financial statements do not include the Volunteer Firemen's Fund which should be included in order to conform to accounting principles generally accepted in the United of America. Except as discussed in the preceding sentence, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Village of Calumet, Michigan's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Village of Calumet, Michigan's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Village of Calumet, Michigan's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Calumet, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Calumet, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the Village of Calumet, Michigan's internal control. I consider the deficiencies described in the accompanying schedule of findings and responses as items 08-01 and 08-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Calumet, Michigan's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described is a material weakness.

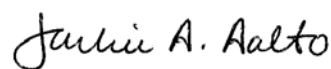
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Calumet, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to the management of the Village of Calumet, Michigan in a separate letter dated July 3, 2008.

The Village of Calumet, Michigan's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the Village of Calumet, Michigan's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the Village council, others within the entity, federal and state awarding agencies, and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

Calumet, Michigan
July 3, 2008

VILLAGE OF CALUMET, MICHIGAN

Schedule of Findings and Responses

Year Ended February 29, 2008

FINDINGS – FINANCIAL STATEMENT AUDIT

08-01 Ability to Prepare Financial Statements

Criteria: Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Village rests with the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Condition: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Cause: The condition noted in the preceding paragraph exists at the Village of Calumet, Michigan. The cause for this condition is because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditor than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Effect: As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Village's annual financial statements and notes to the financial statements in accordance with GAAP. The Village relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Response: Due principally to the small size of the Village and the limited funds available to the Village, the hiring of accounting personnel capable of writing the Village's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

08-02 Lack of Segregation of Duties

Criteria: Management is responsible for protecting the Village's assets. As such, a proper segregation of duties is needed to ensure protection and accurate financial reporting. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Condition: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

VILLAGE OF CALUMET, MICHIGAN

Schedule of Findings and Responses

Year Ended February 29, 2008

Cause: The Village has a limited number of personnel available to adequately segregate all incompatible duties.

Effect: As a result of this condition, the same individuals are responsible for all accounting functions. The result is the possibility that intentional or unintentional errors could be made and not be detected.

Response: As noted above, due to the small size of the Village and the limited funds of the Village, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Village's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Village Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

To the Village Council
Village of Calumet, Michigan

In planning and performing my audit of the financial statements of the governmental activities, the aggregate discretely component unit, each major fund, and the aggregate remaining fund information of the Village of Calumet, Michigan as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, I considered the Village of Calumet, Michigan's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, I do not express an opinion on the effectiveness of the Village's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control that I consider to be material weaknesses, as defined above. Please refer to the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards* for references to deficiencies in internal control that I consider to be significant deficiencies.

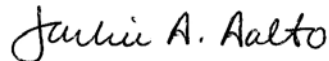
In addition, I noted other matters involving the internal control and its operations that are reported below:

1. The financial statements do not include the Volunteer Firemen's Fund. Because the department is not a separate legal entity, all of the financial activity should be reported in the Village's financial statements.
2. P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the current fiscal year, expenditures exceeded appropriations in the Municipal Street Fund by \$426. In addition, the Village did not adopt a budget for its Water Fund. I recommend that the Village Council monitor actual and budgeted expenditures to ensure compliance with State law and adopt budgets for all of its funds.

3. Currently, the Village does not annually authorize check signers. A current listing of authorized check signers, which is approved annually by the Village Council, should be maintained to ensure proper authorization of all disbursements. I recommend the listing be periodically reviewed and updated each time a change in check signers occurs and that the bank be promptly and formally notified of any change.

This communication is intended solely for the information and use of the Village council, others within the entity, federal and state awarding agencies, and if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to thank the Village personnel for their courtesy and assistance during the audit. I appreciate the opportunity to serve as your auditor. If there are any questions about your financial report or the above comments and recommendations, I would be happy to discuss them at your convenience.



Jackie A. Aalto, CPA

Calumet, Michigan

July 3, 2008